

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2019-290-WS

In the Matter of:)	
)	
Application of Blue Granite Water)	DIRECT TESTIMONY OF
Company for Approval to Adjust)	DONALD DENTON FOR
Rate Schedules and Increase Rates)	BLUE GRANITE WATER COMPANY
<hr/>)	

1 **I. Introduction**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Donald Denton, and my business address is 130 South Main Street,
4 Suite 800, Greenville, South Carolina 29601.

5 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

6 A. I am President of Blue Granite Water Company in South Carolina (“Blue Granite” or
7 “BGWC” or “Company”), President of Carolina Water Service, Inc. of North
8 Carolina, and President of Tennessee Water Service, Inc., all of which are subsidiaries
9 of Corix Regulated Utilities, Inc. (“CRU”).

10 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL**
11 **BACKGROUND?**

12 A. I hold a Bachelor of Aerospace Engineering from The Georgia Institute of
13 Technology as well as an Executive Masters in Business Administration from
14 Queens University in Charlotte, NC. I have worked in the utility sector for over
15 twenty-one years in multiple capacities ranging from engineering to strategic
16 planning and major project execution.

17 **Q. WHAT ARE YOUR DUTIES AS PRESIDENT OF BLUE GRANITE?**

18 A. I am responsible for the Company’s regulated water and wastewater operations in
19 South Carolina, including facility operations, finance, business development,
20 safety, compliance, regulatory affairs and customer service.

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
22 **PROCEEDING?**

1 A. The purpose of my testimony is to provide an overview of Blue Granite's requested
2 rate increase in support of the Company's Application in this case. My testimony
3 outlines the primary drivers of the requested rate increase and the general impact
4 of the rate increase on customers. I discuss our recent reorganization and the
5 benefits of Blue Granite being part of a larger corporate group of utility companies.
6 I provide an overview of the Company's vision and mission, our performance with
7 respect to certain important objectives, and our continued efforts to increase
8 customer engagement in South Carolina. Finally, I introduce the other witnesses
9 who present testimony for the Company in this case.

10 **Q. PLEASE IDENTIFY THE OTHER WITNESSES PRESENTING**
11 **TESTIMONY IN SUPPORT OF THE COMPANY'S APPLICATION IN**
12 **THIS PROCEEDING.**

13 A. The Company's other witnesses filing direct testimony in support of this case are:

- 14 • J. Bryce Mendenhall, Vice President of Operations, who is testifying in
15 support of the Company's water and wastewater system operations, capital
16 investments made in South Carolina since the last rate case, and certain
17 technology initiatives supporting South Carolina operations. He is also
18 testifying to the Company's continued efforts to address non-revenue water
19 (water losses) and Inflow and Infiltration (I&I).
- 20 • Dante DeStefano, Director of Financial Planning and Analysis, who is
21 testifying in support of the Company's present rate and proposed revenues,
22 operating and maintenance expenses, various pro forma adjustments, rate

1 base, the proposed Tax Cuts and Jobs Act one-time credit to customers,
2 pass-through mechanisms for purchased water and wastewater treatment
3 expenses, Storm Reserve Fund, "Round Up" Program, implications of new
4 contracts, existing and proposed cost deferrals, and various tariff changes.

- 5 • Dylan D'Ascendis, Director at ScottMadden, Inc., who is testifying in
6 support of the Company's proposed capital structure and rate of return.
- 7 • Shawn Elicegui, Executive Vice President of Risk Management for Corix
8 Infrastructure, Inc. (CII), who is testifying to the Company's Cost
9 Allocation Manual and corporate service costs allocated to Blue Granite
10 from CII.
- 11 • John Spanos, of Gannett Fleming, who is sponsoring the Company's recent
12 depreciation study and testifying in support of the Company's proposed new
13 depreciation rates for its water and wastewater systems.

14 **Q. WHY DID BLUE GRANITE FILE THE APPLICATION IN THIS**
15 **PROCEEDING?**

16 A. The Company's most important objective is to provide safe,
17 reliable, and cost-effective water and wastewater utility service to our customers in
18 South Carolina with high quality customer service, both today and in the future. We
19 strive to ensure that the investments Blue Granite makes in South Carolina are
20 prudent, cost-effective, and appropriately balance reliable service and reasonable
21 rates for our customers.

1 Water, above all else, must be safe to drink. Wastewater must be effectively
2 treated before being released into the State's streams and rivers. Providing safe and
3 clean drinking water, and effectively managing and treating wastewater, require
4 continuous investments in specially designed infrastructure and systems. As
5 discussed in more detail in both my and Witness Mendenhall's testimony, since its
6 last rate case, Blue Granite has invested approximately \$23 million in its water and
7 sewer systems in order to better serve its customers. These investments were
8 necessary to (1) end the legal discharge of fully treated wastewater from the
9 Friarsgate Wastewater Treatment Facility into the Saluda River; (2) improve the
10 water quality of customers receiving water from Stonegate's well water system; (3)
11 ensure the sustainable provision of water to customers previously served by the
12 failing Shandon wells; (4) support the growing Lake Wylie/Riverhills community
13 through the addition of a secondary water connection; and (5) maintain and improve
14 a number of wastewater collection systems across the Company's footprint.

15 As discussed in more detail in Witness DeStefano's testimony, the
16 Company has also been subject to increases of approximately \$4.7 million from
17 third parties from which it purchases water and wastewater treatment services.
18 These cost increases are not controlled by Blue Granite, make up a significant
19 portion of the Company's annual O&M expense, and are necessary to the provision
20 of service to Blue Granite's customers. Without the Company's proposed annual
21 "pass-through" mechanisms, the Company will not have a realistic opportunity to
22 manage incremental rate impacts to its customers or earn a reasonable return.

1 **Q. IS SAFE AND RELIABLE SERVICE THE ONLY FOCUS OF BLUE**
2 **GRANITE?**

3 A. No. The Company must also keep in mind that its investments must be cost-
4 effective for customers. Water and wastewater service are essential to living.
5 While there are a host of regulatory laws, regulations, and standards that govern the
6 provision of water and wastewater service—and compliance with these laws,
7 regulations, and standards requires continued investment—water and wastewater
8 service must also be cost-effective. To that end, Blue Granite is strategic in
9 prioritizing its investments. The five projects referenced above, for example, were
10 absolutely necessary in the provision of service to Blue Granite customers, and the
11 implementation of the associated projects were accomplished efficiently and cost-
12 effectively. Further, as discussed in more detail in Witness DeStefano’s testimony,
13 to assist low-income customers with paying their water and wastewater bills, Blue
14 Granite is proposing in this proceeding to establish and implement a voluntary bill
15 Round Up program.

16 Blue Granite’s request for a rate increase is made to support investments
17 that benefit its customers while preserving the Company’s financial position. In
18 order to attract the capital necessary to provide quality service to its South Carolina
19 customers, Blue Granite must have an opportunity to earn a reasonable return on
20 its invested capital.

21 **II. Blue Granite Water Company**

1 **Q. PLEASE DESCRIBE THE BLUE GRANITE SERVICE TERRITORY IN**
2 **SOUTH CAROLINA.**

3 A. Blue Granite is a public utility subject to the Commission's jurisdiction, providing
4 water and wastewater utility service to approximately 16,500 water customers and
5 11,800 sewer customers, located in 16 counties in South Carolina.

6 **Q. PLEASE DESCRIBE THE COMPANY'S RECENT REORGANIZATION.**

7 A. Effective April 1, 2019, the management of the Atlantic Business Unit and the
8 South Carolina Business Unit was combined under my predecessor's leadership
9 into an expanded Atlantic Business Unit. Major goals of the reorganization are to
10 facilitate collaboration between the leadership teams for the benefit of each
11 business and its customers, to increase the sharing of best practices across business
12 units, and to more efficiently and effectively share certain support functions across
13 business units. Under this consolidation, the Atlantic Business Unit was able to
14 eliminate one state president position and merge finance, communications, and
15 operations and engineering leadership positions to decrease salary allocations to
16 Blue Granite.

17 **Q. PLEASE EXPLAIN BLUE GRANITE'S RELATIONSHIP WITH**
18 **UTILITIES, INC., WATER SERVICE CORPORATION ("WSC"), AND**
19 **CORIX INFRASTRUCTURE, INC. ("CI").**

20 A. Blue Granite's parent company, Corix Regulated Utilities, Inc. (formerly known as
21 Utilities, Inc.), is relatively unique within the water and wastewater industry in
22 certain respects. From its inception 53 years ago, CRU has concentrated on the

1 purchase, formation, and expansion of smaller water and sewer utility
2 systems. CRU has grown over the years and at the present time, it has over 16
3 subsidiary operating companies – including Blue Granite – which provide water
4 and sewer utility service to approximately 190,000 customers in 18 states.

5 As discussed in Witness Elicegui's testimony, CII is the ultimate parent
6 company of Blue Granite. Both CII and WSC provide services to Blue Granite and
7 other CII utility companies. Broadly speaking, CII provides corporate and
8 governance services, such as policy and strategy, financial management, corporate
9 management, investor relations, compliance, internal audit, tax, and strategic legal,
10 HR management, and communications; while WSC provides day-to-day services
11 such as engineering, construction, operating, billing, customer relations, human
12 resources administration, health safety and environmental, IT, communications,
13 accounting and legal. All of these services are necessary for Blue Granite to
14 operate.

15 **Q. WHAT BENEFITS DO BLUE GRANITE CUSTOMERS RECEIVE FROM**
16 **THE COMPANY'S RELATIONSHIP WITH CORIX REGULATED**
17 **UTILITIES, INC. AND CORIX INFRASTRUCTURE, INC.?**

18 A. The affiliation with CRU has many benefits for Blue Granite customers, which are
19 described in more detail in Witness Elicegui's testimony. One of the primary
20 benefits is that Blue Granite has access to a large pool of capabilities and expertise
21 upon which to draw. The parent company has experts across a range of critical
22 areas, such as construction, engineering operations, accounting, data processing,

1 billing, regulation, and customer service. CRU has a high level of combined
2 expertise and experience, allowing it to provide service in a more cost-effective
3 manner.

4 CRU is focused on operating only water and wastewater systems and
5 CRU personnel can meet the challenges of the rapidly changing utility
6 industry. Because of the CRU companies' exclusive focus on the water and
7 wastewater industries, our companies enjoy some unique advantages, one of which
8 is that capital has been made available for improvements and expansion at a
9 reasonable cost. With increasingly more stringent health, safety, and
10 environmental standards, ready access to capital is vital to continued quality service
11 in the capital-intensive water and wastewater utility business.

12 In addition, the CRU group of companies has national purchasing power,
13 resulting in lower costs to ratepayers. Expenditures for insurance, vehicles, and
14 meters reflect examples of purchases where national contracts provide tangible
15 benefits to customers.

16 Additionally, Blue Granite benefits from receiving services from CII and
17 WSC because it can obtain these services at a lower cost through a cost allocation
18 made to all of the CII subsidiaries than if Blue Granite were to provide or outsource
19 these important services for itself. Blue Granite customers receive these services
20 on a shared basis, without having to bear the sole, full costs of the services,
21 including critical and often expensive investments in technology, security, safety
22 and environmental compliance. The sharing of these service costs over a broader

1 base of business units results in lower costs for each business unit (and their
2 customers) compared to what they would otherwise have to pay if they were
3 standalone businesses.

4 **Q. IS THE COMPANY PROPOSING TO INCLUDE IN RATES IN THIS CASE**
5 **CORPORATE AND GOVERNANCE COSTS ALLOCATED FROM ITS**
6 **AFFILIATE, CORIX INFRASTRUCTURE, INC.?**

7 A. Yes. As mentioned above, in addition to receiving services from WSC, Blue
8 Granite also receives services from CII, and seeks to have the allocated cost of those
9 services reflected in our rates. In-depth testimony on this issue is presented by
10 Witness Elicegui. The costs of the CII and WSC services are allocated to Blue
11 Granite and other CII utility companies in accordance with the CII Cost Allocation
12 Manual. The testimony of Witness Elicegui discusses in greater detail the CII
13 services, the associated costs, and the benefits of such services to customers.

14 **III. Performance Improvement Efforts**

15 **Q. IN THE PAST, BLUE GRANITE EXPERIENCED PERFORMANCE**
16 **ISSUES, FOR EXAMPLE, ISSUES RELATED TO WATER QUALITY IN**
17 **THE STONEGATE SUBDIVISION, THE FRIARSGATE WASTEWATER**
18 **TREATMENT PLANT, THE FORTY LOVE POINT SEWER SYSTEM,**
19 **THE SHANDON WATER SYSTEM SUPPLY, AND THE WATER SUPPLY**
20 **FOR LAKE WYLIE CUSTOMERS. HAS THE COMPANY MADE**
21 **EFFORTS TO ADDRESS ITS PERFORMANCE ISSUES?**

1 A. Yes. Approximately two years ago, the Company took a hard look at its
2 performance and decided to make some significant changes in terms of personnel,
3 capital budgets, infrastructure investments, and operating processes, in order to
4 substantially improve Blue Granite's performance in these and other areas. These
5 efforts are underway and will continue to require time, effort, and financial
6 investment. Our performance improvements will not happen overnight - they will
7 take several years of sustained focus and investment. However, to date, we have
8 implemented a number of changes and made a number of improvements to our
9 systems for the benefit of customers. For example, we have nearly tripled the level
10 of annual capital investment in our infrastructure allowing for the projects
11 previously mentioned, and we have upgraded our operations and management
12 personnel through several strategic hires. The Blue Granite personnel providing
13 testimony in this rate case, for example—myself, Witness DeStefano, and Witness
14 Mendenhall— as well as Witness Elicegui, were hired by the Company only in the
15 past few years. Combined we have more than 55 years of utility operations and
16 regulatory experience.

17 We have implemented a new Operations Management System to support
18 asset maintenance and capital planning (as is further described in Witness
19 Mendenhall's testimony). We have reorganized our reporting structure to better
20 align and support operations. We have adopted standard operating procedures for
21 water and wastewater treatment facilities, and instituted an incident command

1 structure for storm responses. We have set up centralized procurement processes to
2 improve controls and leverage purchasing power.

3 We have implemented an online customer portal and app that allows
4 customers to pay bills and check consumption online. We have instituted a
5 community engagement and philanthropy plan, and we have implemented customer
6 workshops throughout the state to provide regular in-person opportunities for
7 customers to meet with Company personnel about rate, billing, and customer
8 service questions.

9 As Witness Mendenhall's testimony also discusses, we have completed the
10 interconnection of the Shandon and Carrolton Place systems, resulting in improved
11 ability to meet Shandon customers demand for water; we have converted the
12 Stonegate well water system to a purchased water system through interconnection
13 with the City of Columbia, resulting in improved water quality for Stonegate
14 customers; we have constructed a wastewater lift station at the Friarsgate
15 wastewater treatment plant and interconnected the system with the City of
16 Columbia, with the objective of ending permitted discharges into the Saluda River;
17 we have completed an additional water system connection with the City of
18 Charlotte, increasing water supply and overall reliability for the Lake Wylie service
19 area; we have completed a series of wastewater collection system improvement
20 projects in order to reduce flows caused by I&I across our system; and we have
21 constructed a new lift station in Forty Love Subdivision, along with the installation
22 of several grinder pumps to improve Solids Interceptor tank sewer system function.

1 We have also recently completed the installation of advanced metering
2 infrastructure (“AMI”) in the Lake Wylie water system.

3 **Q. WHAT ARE THE IMPACTS OF THESE INVESTMENTS AND**
4 **IMPROVEMENTS?**

5 A. Customers are, without question, being better served by the Company with these
6 system and operational improvements. Water supply and quality have been
7 improved, environmental compliance has improved, internal awareness of the
8 Company’s maintenance and investment needs has improved, and communications
9 and customer experience have improved. We still have a lot of work ahead of us,
10 but we are proud of the strides we have made to improve the operations of the
11 Company and improve the Company’s status as a citizen of this state and as a
12 steward of its resources.

13 **IV. Status of the Company**

14 **Q. WHAT IS BLUE GRANITE’S VISION AND MISSION?**

15 A. Blue Granite’s vision is to be the preferred private water and wastewater utility for
16 our customers and communities. Our mission is to improve the quality of life for
17 our customers and communities by providing safe, reliable, and cost-effective water
18 and wastewater services while promoting environmental stewardship.

19 **Q. HOW DOES BLUE GRANITE PLAN TO ACHIEVE THIS VISION AND**
20 **MISSION?**

21 A. We plan to achieve our vision and mission by accomplishing the following strategic
22 goals:

- 1 • Operational and Service Excellence – developing our people, strengthening our
2 processes, and investing in our technology to support a high-performance
3 organization and a culture of continuous improvement.
- 4 • Collaboration and Engagement – communicating and engaging with our team
5 members, customers, and communities with relevant and timely billing, service,
6 and operational information to improve stakeholder awareness and
7 collaboration.
- 8 • Strong Financial Performance – managing and planning business costs,
9 pursuing growth, and mitigating enterprise risks in a prudent manner to
10 engender trust and confidence in our financial responsibility and ensure access
11 to needed capital.
- 12 • World Class Talent – attracting and retaining top talent to deliver dependable,
13 timely, courteous, and quality services to meet the needs of our customers and
14 communities.

15 **Q. WHAT ARE THE MAJOR CHALLENGES BLUE GRANITE IS FACING?**

16 A. Our major challenges are: (1) updating and replacing aging infrastructure, and the
17 corresponding need to attract and secure capital; (2) complying with increasing
18 environmental compliance requirements; (3) addressing our aging workforce, and
19 attracting and retaining employees in an economy near full employment; (4)
20 managing increasing construction costs, driven in part by that same economy near
21 full employment; and (5) addressing the need for increased scale and

1 regionalization in order to address some of these challenges and help keep rates
2 reasonable.

3 **Q. IN CONNECTION WITH ITS CHALLENGES, HAS BLUE GRANITE**
4 **BEEN INVOLVED IN ANY LITIGATION, THE COSTS FOR WHICH IT**
5 **HAS PROPOSED TO RECOVER IN THIS CASE?**

6 A. Yes. Pursuant to the Commission's Order No. 2018-182, the Company has been
7 deferring litigation expenses related to two cases before the Administrative Law
8 Court ("ALC Cases"). Those cases have now been resolved as a part of the
9 resolution of a condemnation action brought by the Town of Lexington
10 ("Lexington") to take the wastewater collection and treatment system that had
11 previously been owned and operated by the Company near I-20 ("the I-20
12 System").

13 **Q. PLEASE EXPLAIN THE RESOLUTION OF THE I-20 CONDEMNATION**
14 **ACTION.**

15 A. In 2017 the Town of Lexington brought an action to condemn the I-20 wastewater
16 treatment facility. That case was tried in September 2019. Following the trial, Blue
17 Granite and Lexington entered into a Consent Order and Satisfaction of Judgment
18 that resolved all remaining issues in the condemnation action and confirmed that
19 the Town would be taking possession of the I-20 System.

20 **Q. PLEASE EXPLAIN HOW THE RESOLUTION OF THE**
21 **CONDEMNATION ACTION ALLOWED FOR THE DISMISSAL OF THE**
22 **ALC CASES.**

- 1 A. The two ALC cases were brought by the Company to protect its rights to continue
2 its lawful operation of the I-20 System in the event that Lexington did not either
3 offer the Company an acceptable interconnection agreement or take the I-20 System
4 through condemnation. Because of uncertainty over what actions would be taken
5 by Lexington, the Company determined that it was necessary and prudent to take
6 steps to maintain its rights under the permit that allowed it to continue operating
7 the I-20 System pending resolution of its permit denial. To take those steps the
8 Company pursued two contested cases in the Administrative Law Court. The first
9 ALC case was for review of an order from the Department of Health and
10 Environmental Control (“DHEC”) that denied renewal of the Company’s Permit
11 No. SC0035564 issued under the National Pollutant Discharge Elimination System.
12 The second ALC case sought review of a separate DHEC order that required the
13 Company and Lexington to coordinate a plan to eliminate the discharge of the I-20
14 System. Neither ALC case related to any alleged permit violation by the Company,
15 but rather, were administrative proceedings resulting from the DHEC orders
16 involving the non-renewal of the Company’s NPDES permit. Both of the ALC
17 cases had been stayed pending the outcome of the condemnation action. When the
18 latter was resolved, the parties agreed that the ALC Cases should be dismissed with
19 prejudice. The orders dismissing both cases were entered in early December 2019.
- 20 **Q. WERE THE ACTIONS TAKEN BY THE COMPANY IN CONNECTION**
21 **WITH THE ALC CASES PRUDENT?**

1 A. Yes. Because of the complexity of the issues relating to the continued operation of
2 the I-20 System and uncertainty over what course of action would be pursued by
3 the Town of Lexington, the Company had to take steps to protect its legal position
4 that it had a continuing right to the issuance of a discharge permit necessary to
5 operate the I-20 System. Once the condemnation was concluded, the Company
6 moved quickly to dismiss the ALC cases. We believe that the litigation expenses
7 were prudently incurred and were necessary in order to be prepared to serve our
8 customers.

9 **Q. WHAT CUSTOMER EDUCATION AND OUTREACH EFFORTS HAS**
10 **THE COMPANY MADE WITH ITS CUSTOMERS?**

11 A. To enhance our customers' engagement with the Company, we have implemented
12 multiple communication channels through Facebook, Twitter, a newly-designed
13 webpage, bill inserts, town halls, phone calls, and face-to-face meetings. In
14 addition, the Company has launched a new customer portal application called
15 MyUtilityConnect for our customers. Using this new mobile tool, customers can
16 (1) pay their bills; (2) elect to receive service notifications; and (3) monitor their
17 water usage through the application. The Company has used social media outlets
18 to inform customers and Homeowner Associations ("HOAs") about this new tool
19 and will be providing more information via bill inserts. In order to initially access
20 the application, customers can visit our website or search for MyUtilityConnect in
21 the Apple App Store or Google Play Store.

1 Another customer engagement avenue led by our Communications
2 Coordinator, Mr. Reese Hannon, includes the creation of WordPress sites (*i.e.*, free
3 web pages) for our customers to provide updates on projects, water saving tips, and
4 frozen pipe prevention tips. Additionally, Company employees routinely attend
5 meetings with the HOAs. Topics discussed during the HOA meetings have included
6 Blue Granite's planned capital projects, project schedules, conservation and
7 sustainability ideas, and other issues of customer interest. HOA managers also
8 receive articles from Blue Granite for inclusion in their newsletters. These articles
9 include stories ranging from updates on projects and services to water conservation
10 tips. Blue Granite has also increased its efforts to improve customer engagement
11 and awareness about service protocols and rates.

12 Blue Granite is fully committed to improving customer relationships, and
13 we will continue to consider and evaluate new ways of interacting with our
14 customers.

15 **Q. HOW WOULD YOU CHARACTERIZE BLUE GRANITE'S CURRENT**
16 **OPERATIONAL PERFORMANCE?**

17 A. I would characterize our current performance as excellent in the following areas:

- 18 • Providing safe drinking water through water system compliance;
- 19 • Maintaining high water quality;
- 20 • Reducing water quality issues;
- 21 • Achieving on-time and accurate meter reads;
- 22 • Completing field activities on time;

- 1 • Community participation.

2 I would characterize our current performance as good with room for improvement
3 in the following areas:

- 4 • Improving driver safety;
- 5 • Reducing wastewater compliance issues; and
- 6 • Improving workplace safety (our performance with respect to lost time injuries
7 is very good, but our performance with respect to other injuries needs
8 improvement).

9 **V. Proposed Rate Changes**

10 **Q. HOW IS THIS RATE CASE RELATED TO BLUE GRANITE'S VISION,**
11 **MISSION, AND STRATEGIC GOALS?**

12 A. This rate request is integrally related to our ability to achieve our vision, mission
13 and strategic goals. Capital investments, such as those we have made and seek to
14 include in our rate base in this case, are essential to our operational integrity -- they
15 are required in order to maintain and improve our ability to provide high quality
16 and compliant water and wastewater services to our customers and our
17 communities. Operation and maintenance expenses are likewise essential to the
18 provision of safe, reliable, and compliant services to customers. And paying
19 competitive wages to our employees is critical to our ability to attract and retain
20 talented employees who, in turn, provide excellent operational performance and
21 customer service for our customers and communities.

1 **Q. PLEASE EXPLAIN WHY THE COMPANY IS FILING FOR A RATE**
2 **INCREASE AT THIS TIME.**

3 A. As discussed above, our need for rate relief stems primarily from the significant
4 capital investments since the Company's last rate case, made to provide reliable
5 and compliant water and wastewater services to our customers. Since recovery was
6 last authorized in the 2018 rate case, the Company has made over \$23 million of
7 capital investments in our water and wastewater systems in South Carolina. These
8 investments are needed to replace and rehabilitate aging infrastructure and to
9 modernize and increase efficiencies in the Company's systems. These investments
10 are discussed in more detail in Witness Mendenhall's testimony; they include but
11 are not limited to: several interconnection projects, numerous wastewater collection
12 system improvement projects, and advanced metering system installations.

13 Without rate relief, Blue Granite's ability to continue to provide safe,
14 reliable and efficient water and wastewater utility services to its customers and to
15 meet its financial obligations would be compromised, which would ultimately
16 adversely affect our service to our customers. In addition, as discussed in more
17 detail in Witness D'Ascendis's testimony, without the opportunity to receive
18 adequate earnings, Blue Granite's ability to attract and secure capital will be
19 impaired, which can further compromise its ability to perform necessary
20 maintenance, invest in aging infrastructure, and ultimately to provide safe and
21 reliable service at a reasonable cost, which would be to the detriment of our
22 customers.

1 Under present rates, Blue Granite is not able to meet its operating costs and
2 earn a reasonable return on its investments in the Company's systems. During the
3 Test Year, Blue Granite experienced an overall rate of return per its books for its
4 combined water and wastewater operations of only 0.10% (-3.0% on an adjusted
5 basis). The Company's pro forma Test Year overall returns are -4.19% for water
6 operations and -2.09% for wastewater operations. These rates of return are well
7 below Blue Granite's currently-authorized overall rate of return on rate base of
8 8.62%, which is based on an authorized rate of return on common equity of 10.5%,
9 established by the Commission in its Order No. 2018-802.

10 **Q. WHAT IS THE RATE INCREASE REQUESTED BY BLUE GRANITE IN**
11 **THIS PROCEEDING?**

12 A. The Company proposes an overall increase in revenue requirements of
13 \$11,731,803, an increase of 49.18% over pro-forma present rate revenues of
14 \$23,856,072. Of the overall increase, \$4,744,305, or over 40%, is related to
15 increases in third-party provider costs for purchased water and sewer treatment.
16 The overall increase represents a 44.42% increase in water revenue, and a 54.45%
17 increase in wastewater revenues. Approximately 22.31% of the water increase and
18 56.96% of the sewer increase are driven by third-party provider costs for purchased
19 water and sewer treatment.

20 **Q. IF APPROVED, WHAT WOULD BE THE IMPACT OF THE COMPANY'S**
21 **REQUESTED INCREASE TO THE TYPICAL WATER AND**

1 **WASTEWATER CUSTOMER AT AN AVERAGE CONSUMPTION**
2 **LEVEL?**

3 A. Under the Company's proposal, a typical Service Territory 1 residential customer
4 using 4,716 gallons/month would see an increase of approximately \$21.86 per
5 month beginning with the rate effective date in this case. Additionally, a Service
6 Territory 1 Distribution Only residential customer using 4,610 gallons/month
7 would see an increase of approximately \$26.39 per month. A typical Service
8 Territory 2 residential customer using 3,880 gallons/month would see an increase
9 of approximately \$23.91 per month beginning with the rate effective date in this
10 case. Additionally, a Service Territory 2 Distribution Only residential customer
11 using 3,640 gallons/month would see an increase of approximately \$25.06 per
12 month. A typical Consolidated Sewer residential customer would see an increase
13 in their flat rate of approximately \$36.22 per month. More details on the proposed
14 rates for each Rate Division can be found in the testimony of Witness DeStefano.

15 **Q. IS THE COMPANY PROPOSING ANY NEW RATE MECHANISMS IN**
16 **THIS PROCEEDING?**

17 A. Yes. In addition to an increase in base rates, as discussed in Witness DeStefano's
18 testimony, the Company is requesting the following new authorizations:

- 19 • Authority to create a Storm Reserve Fund for extraordinary storm
20 restoration costs such as those experienced following Hurricane Florence;
- 21 • Authority to implement a purchased water and purchased sewer services
22 rate adjustment mechanism; and

1 • Authority to implement a voluntary customer “Round Up” program.

2 **Q. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

3 A. Yes.